

**REPORT OF THE AUDIT OF THE
CARLISLE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2002**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
CARLISLE COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2002

The Auditor of Public Accounts has completed the Carlisle County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances increased by \$111,699 from the beginning of the year, resulting in a cash surplus of \$710,353 as of June 30, 2002.

Debt Obligations:

Capital lease principal agreements totaled \$970 as of June 30, 2002. Future principal and interest payments of \$976 are needed to meet these obligations.

Note payable principal totaled \$15,000 as of June 30, 2002 for the Industrial Development Authority. Future principal and interest payments of \$21,612 are needed to meet these obligations.

Report Comment:

- Internal Control Over Federal Expenditures Should Be Improved

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable John Roberts, Carlisle County Judge/Executive
Members of the Carlisle County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Carlisle County, Kentucky, as of June 30, 2002, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Carlisle County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Carlisle County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising primarily from cash transactions as of June 30, 2002, of Carlisle County, Kentucky, and the receipts and disbursements for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable John Roberts, Carlisle County Judge/Executive
Members of the Carlisle County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2003 on our consideration of Carlisle County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Carlisle County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comment:

- Reference No. 2002-1 Internal Control Over Federal Expenditures Should Be Improved

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 15, 2003

CARLISLE COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

Fiscal Court Members:

John Roberts	County Judge/Executive
Burley Mathis	Magistrate
James McPherson	Magistrate
Lloyd Presson	Magistrate
Roy W. Davis	Magistrate
Harold Wilson	Magistrate

Other Elected Officials:

Michael Hogancamp	County Attorney
Larry Byassee	Jailer
Theresa Owens	County Clerk
Kevin Hoskins	Circuit Court Clerk
Steve McChristian	Sheriff
Larry Scott	Property Valuation Administrator
Wayne Floyd	Coroner

Appointed Personnel:

Nancy Dishmon	County Treasurer
Gail Teasley	Finance Officer

STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

CARLISLE COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only) Reporting Entity</u>
	<u>General</u>	<u>Special Revenue</u>	
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash and Cash Equivalents	\$ 621,211	\$ 100,587	\$ 721,798
Total Assets	\$ 621,211	\$ 100,587	\$ 721,798
<u>Other Resources</u>			
Amounts to Be Provided In Future Years for:			
Capital Lease (Note 4)	\$ 970	\$	\$ 970
Total Other Resources	\$ 970	\$ 0	\$ 970
Total Assets and Other Resources	\$ 622,181	\$ 100,587	\$ 722,768

The accompanying notes are an integral part of the financial statements.

CARLISLE COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
 ARISING FROM CASH TRANSACTIONS
 June 30, 2002
 (Continued)

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only) Reporting Entity</u>
	<u>General</u>	<u>Special Revenue</u>	
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Payroll Liabilities	\$ 11,445	\$	\$ 11,445
Capital Lease (Note 4)	970		970
Notes Payable (Note 5)	15,000		15,000
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	\$ 27,415	\$ 0	\$ 27,415
	<u> </u>	<u> </u>	<u> </u>
<u>Equity</u>			
Fund Balances:			
Reserved	\$	\$ 2,476	\$ 2,476
Unreserved	594,766	98,111	692,877
	<u> </u>	<u> </u>	<u> </u>
Total Equity	\$ 594,766	\$ 100,587	\$ 695,353
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Equity	<u>\$ 622,181</u>	<u>\$ 100,587</u>	<u>\$ 722,768</u>

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

CARLISLE COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	<u>General Fund Types</u>			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 1,880,089	\$ 370,673	\$ 792,753	\$ 72,221
Other Financing Sources:				
Transfers In	236,265	169,512		45,753
Borrowed Money	34,000			
Total Cash Receipts	<u>\$ 2,150,354</u>	<u>\$ 540,185</u>	<u>\$ 792,753</u>	<u>\$ 117,974</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,753,727	\$ 482,765	\$ 456,024	\$ 125,386
Other Financing Uses:				
Transfers Out	236,265	58,753	171,512	
Capital Lease:				
Principal Paid	7,459	4,359	3,100	
Note Payable:				
Principal Paid	5,000			
Interest Paid	2,204			
Borrowed Money Repaid	34,000			
Total Cash Disbursements	<u>\$ 2,038,655</u>	<u>\$ 545,877</u>	<u>\$ 630,636</u>	<u>\$ 125,386</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 111,699	\$ (5,692)	\$ 162,117	\$ (7,412)
Cash Balance - July 1, 2001	<u>598,654</u>	<u>23,263</u>	<u>206,021</u>	<u>8,741</u>
Cash Balance - June 30, 2002	<u><u>\$ 710,353</u></u>	<u><u>\$ 17,571</u></u>	<u><u>\$ 368,138</u></u>	<u><u>\$ 1,329</u></u>

CARLISLE COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

General Fund Types		Special Revenue Fund Types			
Local Government Economic Assistance Fund	Industrial Development Authority Fund	Disaster and Emergency Services Fund	Ambulance Fund	911 Fund	Housing Fund
\$ 3,975	\$ 1,788	\$ 17,888	\$ 179,643	\$ 105,948	\$ 335,200
3,000		5,000		13,000	
			34,000		
<u>\$ 6,975</u>	<u>\$ 1,788</u>	<u>\$ 22,888</u>	<u>\$ 213,643</u>	<u>\$ 118,948</u>	<u>\$ 335,200</u>
\$ 5,845	\$	\$ 34,283	\$ 200,379	\$ 116,321	\$ 332,724
			6,000		
	5,000				
	2,204				
			34,000		
<u>\$ 5,845</u>	<u>\$ 7,204</u>	<u>\$ 34,283</u>	<u>\$ 240,379</u>	<u>\$ 116,321</u>	<u>\$ 332,724</u>
\$ 1,130	\$ (5,416)	\$ (11,395)	\$ (26,736)	\$ 2,627	\$ 2,476
486	226,528	11,922	113,993	7,700	
<u>\$ 1,616</u>	<u>\$ 221,112</u>	<u>\$ 527</u>	<u>\$ 87,257</u>	<u>\$ 10,327</u>	<u>\$ 2,476</u>

CARLISLE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Carlisle County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Industrial Development Authority as part of the reporting entity.

Industrial Development Authority

The fiscal court has included the Industrial Development Authority as part of its reporting entity because the court appoints a voting majority of the governing board and can impose its will to significantly influence the activities of the authority. The financial statements of the Industrial Development Authority are blended with those of the county.

Additional - Carlisle County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Carlisle County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Carlisle County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Carlisle County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, and Industrial Development Authority Fund.

CARLISLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Carlisle County Special Revenue Fund Type includes the following county funds: Disaster and Emergency Services Fund, Ambulance Fund, 911 Fund, and Housing Fund.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The Carlisle County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Industrial Development Authority Fund. The Department for Local Government does not require this fund to be budgeted.

CARLISLE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash and cash equivalents include amounts in bank accounts and certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Carlisle County Cooperative Extension Service is considered a related organization of Carlisle County Fiscal Court.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

CARLISLE COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Capital Lease on Voting Machines

The Carlisle County Fiscal Court entered into a capital lease agreement with the Kentucky Association of Counties Leasing Trust Program on August 13, 1992, for the purchase of nine voting machines in the amount \$36,360. Interest is payable at a variable rate for ten years. As of June 30, 2002, the principal balance was \$970. Payments of principal and interest are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2003	\$ 6	\$ 970
Totals	<u>\$ 6</u>	<u>\$ 970</u>

CARLISLE COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 5. Note Payable

The Industrial Development Authority purchased land from Jack and Mary Boswell, in the amount of \$50,000, for economic development. The initial payment of \$5,000 was paid on May 9, 1996, and the remaining balance of \$45,000 was set up in a promissory note where a payment of \$7,204 was to be paid to the Boswells each April. As of June 30, 2002, the principal balance was \$15,000. Payments of principal and interest are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 2,204	\$ 5,000
2004	2,204	5,000
2005	<u>2,204</u>	<u>5,000</u>
Totals	<u>\$ 6,612</u>	<u>\$ 15,000</u>

Note 6. Insurance

For the fiscal year ended June 30, 2002, Carlisle County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

CARLISLE COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Types</u>			
General Fund	\$ 385,891	\$ 370,673	\$ (15,218)
Road and Bridge Fund	1,025,000	792,753	(232,247)
Jail Fund	78,073	72,221	(5,852)
Local Government Economic Assistance Fund	4,975	3,975	(1,000)
<u>Special Revenue Fund Types</u>			
Disaster and Emergency Services Fund	18,888	17,888	(1,000)
Ambulance Fund	204,503	179,643	(24,860)
911 Fund	103,397	105,948	2,551
Housing Fund	<u>1,000,000</u>	<u>335,200</u>	<u>(664,800)</u>
Totals	<u>\$ 2,820,727</u>	<u>\$ 1,878,301</u>	<u>\$ (942,426)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 2,820,727
Add: Budgeted Prior Year Surplus			372,335
Less: Other Financing Uses			<u>(41,459)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 3,151,603</u>

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SCHEDULE OF OPERATING REVENUE

CARLISLE COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

Revenue Categories	GOVERNMENTAL FUND TYPES		
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type
Taxes	\$ 390,994	\$ 214,481	\$ 176,513
In Lieu Tax Payments	10,196	10,196	
Excess Fees	8,675	8,675	
Licenses and Permits	80	80	
Intergovernmental Revenues	1,332,827	974,169	358,658
Charges for Services	94,652	13,943	80,709
Miscellaneous Revenues	22,798	4,657	18,141
Interest Earned	19,867	15,209	4,658
Total Operating Revenue	<u>\$ 1,880,089</u>	<u>\$ 1,241,410</u>	<u>\$ 638,679</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

CARLISLE COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPES		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 428,856	\$ 406,762	\$ 22,094
Protection to Persons and Property	125,831	123,790	2,041
General Health and Sanitation	1,153	1,133	20
Social Services	20		20
Recreation and Culture	772	591	181
Roads	724,505	426,395	298,110
Debt Service	143	143	
Capital Projects	80,000		80,000
Administration	351,420	111,206	240,214
Total Operating Budget - General Fund Types	\$ 1,712,700	\$ 1,070,020	\$ 642,680
Other Financing Uses:			
Capital Lease Agreement- Principal on Lease	3,100	3,100	
Capital Lease Agreement- Principal on Lease	4,359	4,359	
TOTAL BUDGET - GENERAL FUND TYPES	<u>\$ 1,720,159</u>	<u>\$ 1,077,479</u>	<u>\$ 642,680</u>

CARLISLE COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPES		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Protection to Persons and Property	\$ 381,002	\$ 333,933	\$ 47,069
Debt Service	600	370	230
Capital Projects	1,000,000	332,724	667,276
Administration	57,301	16,680	40,621
Total Operating Budget - Special Revenue Fund Types	\$ 1,438,903	\$ 683,707	\$ 755,196
Other Financing Uses:			
Note Payable-			
Principal on Note	34,000	34,000	
TOTAL BUDGET - SPECIAL REVENUE FUND TYPES	<u>\$ 1,472,903</u>	<u>\$ 717,707</u>	<u>\$ 755,196</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable John Roberts, Carlisle County Judge/Executive
Members of the Carlisle County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Carlisle County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated September 15, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Carlisle County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Carlisle County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 15, 2003

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable John Roberts, Carlisle County Judge/Executive
Members of the Carlisle County Fiscal Court

**Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of Carlisle County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. Carlisle County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Carlisle County's management. Our responsibility is to express an opinion on Carlisle County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Carlisle County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Carlisle County's compliance with those requirements.

In our opinion, Carlisle County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Carlisle County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Carlisle County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Carlisle County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying schedule of findings and questioned costs.

- Reference No. 2002-1 Internal Control Over Federal Expenditures Should Be Improved

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 2002-1 to be a material weakness.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
September 15, 2003

FINDINGS AND QUESTIONED COSTS

CARLISLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2002

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Carlisle County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Carlisle County were disclosed during the audit.
4. One reportable condition disclosed during the audit of the major federal awards programs is reported in the Independent Auditor's Report. The condition is reported as a material weakness.
5. The auditor's report on compliance for the audit of the major federal awards programs for Carlisle County expresses an unqualified opinion.
6. Audit findings relative to the major federal awards programs for Carlisle County are reported in Part C of this schedule.
7. The program tested as a major program was: Carlisle County Scattered Site Housing Project - Community Development Block Grant
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Carlisle County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCES

None.

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

None.

CARLISLE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2002
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

Reference No. 2002-1 Internal Control Over Federal Expenditures Should Be Improved

Under the provisions of OMB Circular A-102-Common Rule, non-federal entities receiving federal awards shall establish and maintain internal controls designed to reasonably ensure compliance with federal laws, state regulations, and grant program compliance requirements.

The Carlisle County Fiscal Court entered into a contract with the Purchase Area Development District (PADD) to administer the grant. The Purchase Area Development District (PADD) met with the Fiscal Court twice to develop and review the project plan. The PADD followed the procurement plan passed by the Fiscal Court. We were able to determine that the federal expenditures were for intended expenses of the grant and there were no questioned costs.

The PADD administrator would forward drawdown requests, written checks and supporting documentation to the County Judge/Executive who would review, sign and distribute the checks. These documents were not presented or approved by fiscal court.

We recommend that the Carlisle County Fiscal Court establish additional controls over federal expenditures to ensure compliance with federal and state laws, applicable regulations, and grant compliance requirements.

County Judge/Executive John Roberts' Response:

In future federal projects, we will implement additional internal controls over federal expenditures. The Purchase Area Development District (PADD) met with the fiscal court twice to develop and review the project plan. The plan involved policies and procedures, outlined client eligibility and selection, contractors' selection and payment and grievance procedures. These policies were passed in a Fiscal Court meeting. A public hearing was held allowing additional comments including a procurement plan that was presented and passed by the fiscal court. By adopting the plan the Fiscal Court was involved in all management decisions, except routine day-to-day detail. Those details were carried out in accordance with the plan by the PADD.

The PADD followed the plan passed by the Court providing the best possible service utilizing funds budgeted where the clients received the assistance intended by the project. It is the unanimous opinion of the members of the Carlisle County Fiscal Court that the Housing Grant was a total and unquestionable success.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CARLISLE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
U.S. Department of Housing and <u>Urban Development</u>		
Passed-Through State Department for Local Government:		
Community Development Block Grant/State's Program-State Administered Small Cities Program (CFDA #14.228)	B-00-DC-21-0001(0047)	\$ 282,524
Kentucky Housing HOME Program (CFDA #14.239)	M00-SG210188-00	<u>50,200</u>
Total U. S. Department of Housing and Urban Development		<u>\$ 332,724</u>
<u>U. S. Department of Justice</u>		
Passed-Through State Justice Cabinet:		
Public Safety Partnership and Community Policing Grants (CFDA #16.710)	96-UM-WX-0084	\$ 22,035
Public Safety Partnership and Community Policing Grants (CFDA #16.710)	01-SH-WX-0295	<u>19,469</u>
Total U. S. Department of Justice		<u>\$ 41,504</u>
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.503)	N/A	<u>\$ 7,654</u>
Total U. S. Federal Emergency Management Agency		<u>\$ 7,654</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 381,882</u></u>

CARLISLE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis of accounting.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

CARLISLE COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2002

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS


CARLISLE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2002

The Carlisle County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer

